OFFICE OF THE INSPECTOR GENERAL

• PROMOTING INTEGRITY •

STEVE WHITE, INSPECTOR GENERAL

MANAGEMENT AUDIT

OFFICE OF INTERNAL AUDITS

CALIFORNIA YOUTH AUTHORITY

REPORT

JULY 2003

GRAY DAVIS, GOVERNOR

State of California **Office of the Inspector General**

801 K Street, Suite 1900
Sacramento, CA 95814

Memorandum

Date: July 21, 2003

To: JERRY HARPER, Director
California Youth Authority

From: STEVE WHITE
Inspector General

Subject: MANAGEMENT AUDIT OF THE OFFICE OF INTERNAL AUDITS

Enclosed is the final report of the management audit conducted by the Office of the Inspector General of the California Youth Authority's Office of Internal Audits. A draft version of the report was provided to the department earlier, and the department's response to the draft report is included as Attachment B to the final report. The Office of the Inspector General's reply to the department's response is included as Attachment C.

The Office of the Inspector General found that the California Youth Authority is not making effective use of the Office of Internal Audits to identify serious problems affecting the department because it has restricted the work of the office to fiscal matters. Moreover, the audit revealed that the Office of Internal Audits is poorly managed and is not fulfilling even the limited mission with which it has been charged. The reporting structure of the Office of Internal Audits also fails to adequately protect the independence of the department's internal audit function. As a result, the Office of Internal Audits presently provides minimal value to the department.

The Office of the Inspector General recommends that the California Youth Authority integrate the department's internal audit and program compliance functions into a single office and combine staff to perform comprehensive fiscal and operational reviews using a comprehensive risk assessment process. In addition, the Office of the Inspector General recommends that the department implement quality control assurance measures governing the internal audit/program compliance operation and develop a tracking system to ensure that appropriate corrective action is implemented by auditees. The department expressed agreement with these recommendations in its response to the draft report and has described proposed corrective action.

The Office of the Inspector General also recommends that the department change its existing reporting structure to provide for the head of the internal audit/program compliance office to report directly to the chief deputy director within the Office of the Director of the California Youth Authority. The department disagrees with this recommendation and has proposed instead that the internal audits and program compliance offices report to the assistant director of the Office of Professional Standards. The Office of the Inspector General regards that arrangement as insufficient to ensure the independence of the internal audit function. If the department proceeds with that plan, we recommend that the Policy, Procedures, Programs and Regulations Unit be placed under a different organizational component.

Please call me if you have any questions about the report.

cc: Robert Presley, Secretary, Youth and Adult Correctional Agency
Mark Gantt, Deputy Director, California Youth Authority

OFFICE OF THE INSPECTOR GENERAL

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CALIFORNIA YOUTH AUTHORITY

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• *PROMOTING INTEGRITY* •

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EXECUTIVE SUMMARY

This report presents the results of a management audit of the Office of Internal Audits of the California Youth Authority, conducted by the Office of the Inspector General. The audit, which was performed under the Inspector General's oversight responsibilities under *California Penal Code* Section 6126, examined the management practices and administrative procedures of the Office of Internal Audits. The audit was conducted from January 2003 through March 2003.

The purpose of the audit was to determine whether the management practices and administrative procedures of the Office of Internal Audits are being carried out in accordance with applicable laws, regulations, and policies. The audit also assessed the efficiency and effectiveness of the Office of Internal Audits in helping to fulfill the mission and responsibilities of the California Youth Authority and measured the performance of the Office of Internal Audits according to professional internal auditing standards.

The Office of the Inspector General found that the California Youth Authority is not effectively using the Office of Internal Audits to identify serious problems affecting the department because it has restricted the work of the office to fiscal matters. Even within that limited scope, the Office of Internal Audits is failing to accomplish its mission. In the most recent two-year reporting period, and despite a significant staffing increase, the Office of Internal Audits completed less than 6 percent of the 301 audits for which it is responsible. As a result, the California Youth Authority is unable to properly certify that it is maintaining a system of internal accounting and administrative control as required under the Financial Integrity and State Managers Accountability Act of 1983.

The failure of the Office of Internal Audits to fulfill its responsibilities results from poor management, inadequate supervision of the audit staff, the absence of a quality control program, and the failure of management to use risk assessment in planning audit activities. In addition, the reporting structure of the Office of Internal Audits does not adequately protect the independence of the department's internal audit function. As a result of these deficiencies, the Office of Internal Audits presently provides minimal value to the department.

The following summarizes the Office of the Inspector General's findings.

FINDING 1

The Office of the Inspector General found that the California Youth Authority is not making effective use of the Office of Internal Audits as a tool for identifying problems needing corrective action.

The Office of the Inspector General found that the work of the Office of Internal Audits has been unnecessarily limited to fiscal matters, thereby neglecting the most serious problems facing the California Youth Authority. As a consequence, the findings resulting from the internal audits are insignificant in relation to the dollars expended in staff resources for the Office of Internal Audits and inconsequential compared to the liability to the department posed by deficiencies in California Youth Authority programs and operations.

Even within its limited scope of fiscal audit activity, the Office of Internal Audits performs its work in an ineffective, piecemeal fashion that fails to target high-risk areas or to provide management with a comprehensive assessment of systems and operations. Consequently, the Office of Internal Audits provides minimal value to the department and does not provide the necessary assurance that the department meets state requirements of maintaining an effective system of accounting and administrative controls.

FINDING 2

The Office of the Inspector General found that the Office of Internal Audits is poorly managed, inadequately supervised, and is not fulfilling its audit responsibilities.

The Office of the Inspector General found that despite a staffing increase that was intended to ensure that it would fulfill all of its audit responsibilities, the Office of Internal Audits falls far short of completing all of the audits for which it is responsible. In the most recent two-year reporting period ended December 31, 2001, the Office of Internal Audits completed less than 6 percent of the audits it was responsible for completing. In the department's biennial report for that period, which is intended to certify the adequacy of the agency's internal accounting and administrative control systems, the department acknowledged that the Office of Internal Audits had not completed all of the required audits and blamed the failure again on inadequate staffing. The Office of the Inspector General found instead that the low productivity of the office results from poor planning, poor management, the absence of a quality control program, and inadequate supervision of the audit staff. Because of the management deficiencies, reports take months to be issued, audits regularly exceed budgeted hours, and audit findings are not adequately monitored to ensure that corrective action is taken.

FINDING 3

The Office of the Inspector General found that the reporting structure of the Office of Internal Audits does not adequately protect the independence of the internal audit function and impedes communication between the Office of Internal Audits and the department director.

Practice advisories issued by the Institute of Internal Auditors to help interpret the *Standards for the Professional Practice of Internal Auditing* recommend that the chief audit executive report directly to the chief executive officer of the organization to protect the independence of the internal audit function. As such, the advisories recommend that the chief audit executive of an internal audit organization report functionally to the audit committee, board of directors, or other appropriate governing authority and administratively to the chief executive officer of the organization. Consistent with the advisories, both the internal audit charter and the administrative manual of the California Youth Authority provide for the chief of the Office of Internal Audits to report administratively and functionally to the department's chief deputy director within the Office of the Director. The Office of the Inspector General found instead, however, that the chief of the Office of Internal Audits reports to the assistant director for the Office of Internal Affairs and Internal Audits, who, in turn, reports to the chief deputy director within the Office of the Director of the California Youth Authority. Furthermore, a recently approved department reorganization will add an additional managerial level between the Office of Internal Audits and the department director, further impeding communication between the director and the Office of Internal Audits and compromising the independence of the internal audit function.

RECOMMENDATIONS

The Office of the Inspector General recommends that the California Youth Authority take the following actions with respect to the Office of Internal Audits:

- **To allow management greater control over fiscal and program functions critical to department operation, integrate the internal audit function and the program compliance function into a single office and combine staff to perform comprehensive fiscal and operational reviews.**

- **Provide for the internal audit/program compliance office to be managed by a person who can ensure that the office adheres to *Standards for the Professional Practice of Internal Auditing.***

- **Provide for the head of the internal audit/program compliance office to report directly to the chief deputy director within the Office of the Director of the California Youth Authority.**

- **Require that the head of the internal audit/program compliance office perform a comprehensive risk assessment of California Youth Authority institutions, camps, parole operations and headquarters to identify areas of high risk when assigning resources and developing work plans.**

- **Ensure adequate supervision of staff in the field by combining experienced and inexperienced staff into teams and ensure that managers and supervisors provide fieldwork supervision.**

- **Ensure that reports are issued promptly and communicate the relative importance of the findings and recommendations.**

- **Develop a tracking system to ensure that corrective action is implemented by auditees and that the status of the corrective action is submitted for management review.**

- **Implement an internal quality assurance program that enables management to measure staff and office performance in the areas of fiscal and program compliance, evaluation of budgeted and expended hours, effectiveness of reports, and monitoring of findings and recommendations.**

- **In accordance with the *Standards for the Professional Practice of Internal Auditing,* arrange for external assessments of the office at least every five years and communicate the results of the external assessments to the Office of the Director.**

INTRODUCTION

This report presents the results of a management audit of the Office of Internal Audits of the California Youth Authority, which was performed by the Office of the Inspector General pursuant to *California Penal Code* Section 6126. Section 6126 assigns the Office of the Inspector General responsibility for oversight of the Youth and Adult Correctional Agency and its subordinate departments and authorizes the Inspector General to initiate audits and investigations to identify areas of noncompliance with state policies and procedures, identify deficiencies, and recommend corrective action. The purpose of the audit was to assess the effectiveness of the Office of Internal Audits and to determine whether its management practices and administrative procedures are consistent with applicable laws, regulations, and policies. The audit also assessed the efficiency and effectiveness of the internal audit function in fulfilling the department's mission and responsibilities and measured the performance of those functions according to professional audit standards.

BACKGROUND

The Financial Integrity and State Manager's Accountability Act of 1983, *California Government Code* Section 13400, *et seq.,* requires every state agency to maintain effective internal accounting and administrative control systems as an integral part of its management practices. The act also requires state agency directors to prepare and submit a report certifying the adequacy of the agency's internal accounting and administrative control systems to the Governor, the Legislature, the Bureau of State Audits (formerly the Auditor General), and the Department of Finance at the end of every odd-numbered fiscal year. Consistent with the act, the Office of Internal Audits was established within the California Youth Authority to review the department's internal accounting and administrative controls. Section 8500 of the *Department of the Youth Authority Administrative Manual* provides as follows:

> *In accordance with the Financial Integrity and State Managers Accountability Act of 1983 (Sections 13405 (a) and (b) of the Government Code), the Director is required to certify to the Governor, the Legislature, the Auditor General, and the Director of Finance that an effective system of internal accounting and administrative control is in effect and functioning to safeguard the State's assets, provide reliable accounting data, promote operational efficiency, and ensure adherence to prescribed managerial policies. The Office of Internal Audits reviews the internal accounting and administrative controls throughout the Department and issues reports to the Director.*

The Office of Internal Audits presently has a staff of seven, including one senior management auditor, one staff management auditor, and five associate management auditors. Its budget for the 2002-03 fiscal year is approximately $850,000. The Office of Internal Audits reports directly to the assistant director of the Office of Internal Affairs and Internal Audits, who reports to the chief deputy director within the Office of the Director of the California Youth Authority. The department is currently proposing a reorganization that may change the reporting structure of the Office of Internal Audits.

OBJECTIVES, SCOPE, AND METHODOLOGY

The management audit of the audit functions of the Office of Internal Audits examined all aspects of operation for adherence to applicable laws, regulations, policies, and procedures. The

Office of the Inspector General also evaluated the quality of the agency's operational practices and measured the performance of its internal audit functions according to professional auditing standards.

The audit centered on the mission of the Office of Internal Audits and the effectiveness of the office management in carrying out that mission. Some of the areas reviewed included planning, use of resources, execution of audits, effectiveness of audit reports, and overall performance relative to the internal audit charter.

The audit procedures included the following:

- Interviews with the management and staff of the Office of Internal Audits;
- Interviews with various high-level executives of the California Youth Authority ultimately responsible for the Office of Internal Audits;
- Review of policies and procedures related to the operations of the Office of Internal Audits;
- Review of staff qualifications and continuing education;
- Review of systems used to monitor, track, and manage audits;
- Review of audit reports, audit work papers, and related documentation;
- Review of contracts and related documentation with outside entities used to provide audit services to the California Youth Authority; and
- Review of budget and expenditure data.

The management audit was performed in accordance with *Government Auditing Standards* of the U.S. General Accounting Office and was conducted from January 2003 through March 2003 at the Office of Internal Audits in Sacramento, California. The Office of the Inspector General received excellent cooperation during the audit from management and staff of the California Youth Authority.

FINDINGS AND RECOMMENDATIONS

FINDING 1

The Office of the Inspector General found that the California Youth Authority is not making effective use of the Office of Internal Audits as a tool for identifying problems needing corrective action.

The Office of the Inspector General found that the work of the Office of Internal Audits has been unnecessarily limited to fiscal matters, thereby neglecting the most serious problems facing the California Youth Authority. As a consequence, the findings resulting from the internal audits are insignificant in relation to the dollars expended in staff resources for the Office of Internal Audits and inconsequential compared to the liability to the department posed by deficiencies in California Youth Authority programs and operations.

Even within its limited scope of fiscal audit activity, the Office of Internal Audits performs its work in an ineffective, piecemeal fashion that fails to target high-risk areas or to provide management with a comprehensive assessment of systems and operations. Consequently, the Office of Internal Audits provides minimal value to the department and does not provide the necessary assurance that the department meets state requirements of maintaining an effective system of accounting and administrative controls.

The internal charter of the Office of Internal Audits allows for a broad audit function. The internal charter of the Office of Internal Audits, which defines the purpose, authority, and responsibility of the office, and the department's administrative manual both define the role of the Office of Internal Audits as follows:

> *The Office of Internal Audits assists management in carrying out its fiscal responsibilities by furnishing management with analyses, appraisals and recommendations related to:*
>
> - *Integrity of management and fiscal information,*
> - *Security of assets,*
> - *Accountability of resources,*
> - *Compliance with statutes, policies, procedures, plans and contracts,*
> - *Effective utilization of resources to meet organization/program objectives, and*
> - *Coordinating audit efforts with external agencies.*

The work of the Office of Internal Audits is confined to fiscal matters. Despite the broad scope allowed the Office of Internal Audits by the internal charter and the department administrative manual, the work of the Office of Internal Audits is confined to conducting fiscal audits. To perform the audits, the office uses the *Audit Guide for the Evaluation of Internal Control* issued by the Department of Finance. The audit guide separates internal controls into 11 transaction cycles and sub-cycles to assist the auditor in identifying the flow of transactions from the point of authorization through execution, recording of transactions, and accountability for assets. The cycles and sub-cycles consist of electronic data processing, budget, cash receipts, receivables, purchasing, cash disbursements, revolving fund, personnel/payroll, contracts, fixed assets, and financial reporting. The California Youth Authority contracts with the Department of Finance to perform audits of the ward trust funds and the institution stores/canteen, but the remaining audit cycles and sub-cycles for headquarters, eleven institutions, four camps, and sixteen parole offices are the responsibility of the Office of Internal Audits. Because not all cycles and sub-cycles apply to every entity, the audit universe, or responsibility, of the Office of Internal Audits totals 301 transaction cycles and sub-cycles.

The Office of Internal Audits uses a fragmented approach in conducting its audits. But even within its limited role of conducting fiscal audits, and even with the use of the Department of Finance audit guide, the Office of Internal Audits performs its work in an ineffective, time-consuming, piecemeal manner that provides minimal value. Instead of conducting comprehensive audits of all of the transaction cycles and sub-cycles at a particular institution, camp, or parole office, the Office of Internal Audits conducts separate audits of each transaction cycle or sub-cycle, treating them as separate and distinct events. Breaking down the systems into component pieces in this manner and reviewing the pieces in isolation narrows the value that can be derived from the work and fails to provide management with essential information about the operation as a whole.

The Office of Internal Audits does not perform risk assessments to target its audit activity. In addition to its piecemeal approach to conducting fiscal audits, the Office of Internal Audits does not perform risk assessments to determine what fiscal areas should be assigned high priority for audit. *The Standards for the Professional Practice of Internal Auditing* established by the Institute of Internal Auditors require the chief executive of an internal auditing office to use risk-based assessment in planning audit activity so that audits can be targeted to areas of greatest importance and risk to the organization. Likewise, the Department of Finance *Audit Guide for the Evaluation of Internal Control,* which the Office of Internal Audits uses in conducting audits, emphasizes the need for risk assessment in audit planning. The audit guide provides as follows:

> *Risk assessment is a crucial process in developing effective audit work schedules. The risk assessment process includes identifying auditable activities and relevant risk factors, and assessing their relative significance. As such, a preliminary risk analysis should be performed to determine the areas of vulnerability…. After the level of risk is assessed, the auditor should adjust the planned audit coverage.*

Yet, the Office of the Inspector General found that the management of the Office of Internal Audits does not perform formal risk assessments of the California Youth Authority's fiscal operations to identify critical risk areas. As a result, the Office of Internal Audits has no formalized audit work plan that incorporates a risk analysis of various department entities and presents a comprehensive evaluation of the department's internal control systems. The management of the Office of Internal Audits told the Office of the Inspector General that instead it selects audit targets based simply on the auditors' knowledge of the institutions and on previous audit findings.

The findings of the Office of Internal Audits often concern minor issues. From a survey of 23 audit reports issued by the Office of Internal Audits over the past three years, the Office of the Inspector General found that the findings resulting from the audits often center on matters that are insignificant compared to the pressing issues affecting California Youth Authority programs and operations. Typical findings in the reports surveyed concerned such issues as the failure of the entity to complete timely cash and fixed asset account reconciliations; improper segregation of duties; and the absence of proper written procedures. In many cases, the report failed to clearly state the dollar and control effect of the findings. The staff of the Office of Internal Audits told the Office of the Inspector General that findings are included in the audit reports regardless of the relative significance or insignificance ─ a practice that undermines both the perceived value of the report and the credibility of the audit function. In one such example, a March 30, 2001 audit of the fixed assets of the Northern California Youth Correctional Center included the finding that the institution had improperly identified large kitchen items with black markers instead of with adhesive or metal tags. The institution superintendent responded to the finding as follows:

> *The equipment in question consists of very large, permanently installed items, such as steam kettles, commercial mixers, and rack ovens. Each of these items weighs several hundred pounds and is bolted to the floor. We had adhesive stickers on many of these items, but since they are designed to heat up during ordinary use, the adhesive loosened and the stickers fell off over time. We agree that the auditors are technically correct, and we will actively pursue the acquisition and installation of permanent metal tags. In the interim, we are reasonably sure that the equipment is secure from theft and is unlikely to be mistaken as belonging to some other entity.*

Another finding in the same report recommends capitalizing guard dogs as though they were fixed assets. In that instance, the institution superintendent questioned the validity of the finding and it was subsequently removed from the report. The superintendent commented as follows:

> *We respectfully disagree. While it is true that our K9's were purchased at a cost exceeding $5,000, that they have a normal useful life of more than one year, and that their efforts are used to conduct State business, the same might also be true for any out-of-state, specially recruited human employee. We do not capitalize them either. In fact, our K9's are considered peace officers; they are issued badges (not property tags), and, at the end of their 'useful lives' they are retired, not surveyed. If we were to capitalize them as the auditors suggest, they would be classified as 'equipment,' a particularly inapt descriptor. Finally, our accounting treatment of our K9's is consistent with the procedures employed by the California Highway Patrol (CHP), a department having a relatively large K9 program. They do not classify their dogs as equipment either. We understand the auditors' logic, but we feel that our current accounting treatment is equally valid, and also preferable.*

Purpose of an internal audit organization. As presently constituted and operated, the Office of Internal Audits does not meet the standards of an effective internal audit office. *California Government Code* Section 1236 requires all state agencies having an internal audit function to adhere to the *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors. According to those standards, the purpose of an internal audit office is to add value to an organization and improve its operations. Essential to the purpose is broad authority on the part of the internal audit office to review whole systems. Those standards describe the purpose of internal auditing as follows:

> *[I]nternal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*

The Program Compliance Unit cannot substitute for an effective internal audits program. In recognition of the need for department programs to be systematically reviewed for compliance with applicable laws and regulations, the management of the California Youth Authority in fiscal year 2001-02 redirected staff from other department areas to establish a Program Compliance Unit. But none of the staff positions at the Program Compliance Office requires an auditing background or is designated for an auditor. It therefore appears that the staff of the Program Compliance Office may lack the training and experience needed to apply internal auditing standards, procedures, and techniques and does not have the proficiency necessary to meet the *Standards for the Professional Practice of Internal Auditing*, as required by *California Government Code*, Section 1236. More important, the responsibilities assigned to the Program Compliance Unit would be more appropriately assigned to an internal audit organization as a component of broader internal audit activity.

The California Youth Authority needs a vigorous internal audit function. The department's far-reaching responsibilities for youths committed by the courts to the state correctional system necessitate an audit program capable of efficiently identifying and correcting failures in department programs and operations. Effective audits are necessary not only to protect the health and safety of wards and staff and to safeguard the state from liability resulting from program deficiencies, but also to enable the California Youth Authority to fulfill its mission of protecting the public while preparing wards to return to society.

That there is ample need for a broad and robust internal audits function at the California Youth Authority has been demonstrated by audits of California Youth Authority programs and institutions performed by the Office of the Inspector General in its oversight responsibility for departments in the Youth and Adult Correctional Agency. In those audits, the Office of the Inspector General has identified a consistent pattern of non-compliance with state and federal laws and regulations, as well as hundreds of other conditions requiring remedial action. As one example: in management review audits of four California Youth Authority institutions, the Office of the Inspector General found that all four failed to provide wards with required counseling and related services ─ a function central to the department's mission of preparing wards for successful reintegration into the community. The level of non-compliance in that area ranged from 44 to 64 percent. Audits by the Office of the Inspector General have also identified deficiencies affecting institution security, constitutional rights to due process, suicide prevention, contagious disease procedures, education requirements, weapons storage, psychotropic drug prescriptions, investigations of staff misconduct, medical care, hostage procedures, ward program assessment, security searches, and numerous other issues. An independent internal audit unit employing a disciplined approach in evaluating and analyzing both fiscal and program operations could systematically identify such issues and lay the groundwork for corrective action.

FINDING 2

The Office of the Inspector General found that the Office of Internal Audits is poorly managed, inadequately supervised, and is not fulfilling its audit responsibilities.

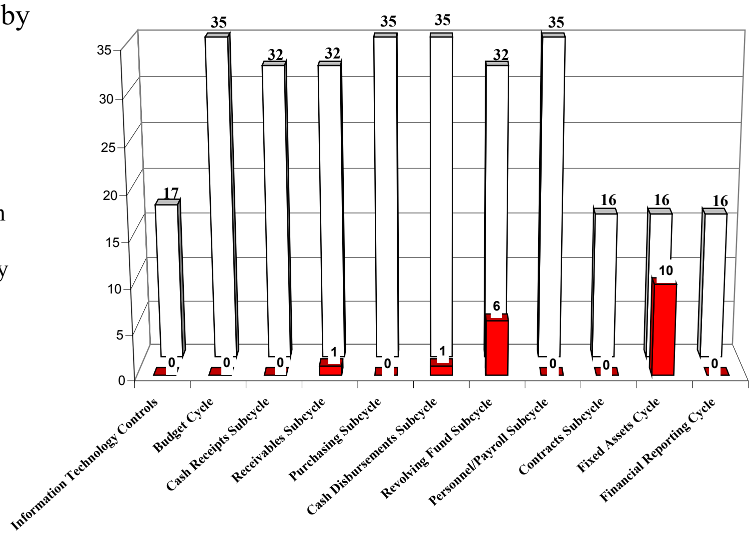
The Office of the Inspector General found that despite a staffing increase that was intended to ensure that it would fulfill all of its audit responsibilities, the Office of Internal Audits falls far short of completing all of the audits for which it is responsible. In the most recent two-year reporting period ended December 31, 2001, the Office of Internal Audits completed less than 6 percent of the audits it was responsible for completing. In the department's biennial report for that period, which is intended to certify the adequacy of the agency's internal accounting and administrative control systems, the department acknowledged that the Office of Internal Audits had not completed all of the required audits and blamed the failure again on inadequate staffing. The Office of the Inspector General found instead that the low productivity of the office results from poor planning, poor management, the absence of a quality control program, and inadequate supervision of the audit staff. Because of the management deficiencies, reports take months to be issued, audits regularly exceed budgeted hours, and audit findings are not adequately monitored to ensure that corrective action is taken.

The Office of Internal Audits does not fulfill its audit responsibility. To fulfill the department's responsibility for maintaining internal accounting and administrative control systems, the Office of Internal Audits is responsible for performing assessments of 301 transaction cycles and sub-cycles in every two-year period. At the end of every odd-numbered fiscal year, the department is required under the Financial Integrity and State Manager's Accountability Act of 1983, *California Government Code* Section 13400, *et seq.,* to certify the adequacy of the agency's internal accounting and administrative control systems in a report to the Governor, the Legislature, the Bureau of State Audits, and the Department of Finance. The California Youth Authority submitted its report for the most recent two-year reporting period ending December 31, 2001 on January 9, 2002. In the report, the department acknowledged that the Office of Internal Audits had not completed all of the required audits. In fact, the Office of Internal Audits had audited only 18 of the 301 transaction cycles and sub-cycles it is required to cover ─ less than 6 percent of its audit responsibility. The Office of the Inspector General found, moreover, that in the three-year period ended December 31, 2002, the Office of Internal Audits audited only 26 cycles and sub-cycles, amounting to less than 9 percent of the 301 transaction cycles and sub-cycles it is responsible for evaluating over a two-year period. Of the 11 cycles and sub-cycles, only four were even partially audited in the two-year reporting period. None of the remaining cycles and sub-cycles were evaluated at all. The following chart illustrates the cycles and sub-cycles the Office of Internal Audits is required to assess in each two-year period compared to the number it actually audited in the last two-year reporting period ended December 31, 2001.

Audit Responsibility of the Office of Internal Audits Compared to Audits Completed
January 1, 2000 through December 31, 2001

Entities Required to be Audited by the Office of Internal Audits

11 Institutions
4 Camps
16 Parole Offices
4 Headquarters
- Administrative Services Branch
- Education Services Branch
- Parole Services and Community Corrections Branch
- Institutions and Camps Branch



Transaction cycles and sub-cycles required: 301
Transaction cycles and sub-cycles completed: 18

In a January 9, 2002 memorandum to the Secretary of the Youth and Adult Correctional Agency, the Director of the California Youth Authority attributed the failure of the department to complete all of its required audits to "the current staffing level in the Office of Internal Audits." But in fact, the failure of the Office of Internal Audits to fulfill its audit responsibility has a long history. In 1999, after the department failed to fulfill its audit requirements in each of the three preceding biennial reporting periods, covering the years 1992-93, 1994-95, and 1996-97, the Office of State Audits and Evaluation of the Department of Finance recommended that the staff of the Office of Internal Audits be increased to six or seven. In response, the California Youth Authority submitted a budget change proposal, which resulted in an increase of the staff of the Office of Internal Audits to seven positions ─ a chief, a manager, and five auditors. In requesting the additional positions, the department included a schedule that was intended to show that the increased staffing would enable the Office of Internal Audits to complete all of its required audits within each mandated two-year time frame.[1] The department further declared that the increased staffing resources would enable the Office of Internal Audits to " begin conducting complete assessments of the department's internal accounting and administrative control systems taken as a whole (instead of on a piece meal basis)." Neither promise has been fulfilled. And because the Office of Internal Audits satisfies such a small percentage of its audit responsibility, the department cannot accurately certify that it is maintaining an adequate system of internal accounting and administrative controls.

Reasons for the poor performance of the Office of Internal Audits. The causes for the deficiencies in the performance of the Office of Internal Audits are several, but all point to poor management. The failure of management to target audit activity to high-risk areas, as described in Finding 1, and conducting audits in a piecemeal fashion instead of consolidating the audits relating to each entity to provide a comprehensive view of the entity's operations are both symptomatic of management shortcomings. Both practices limit the value of the audits conducted, and fragmenting the audit activity also greatly extends the time needed to complete the audit cycles. In addition, the Office of the Inspector General found that the Office of Internal Audits management does not adequately supervise the audit staff; does not monitor to ensure that reports are issued promptly; does not ensure that audits are completed within budgeted hours; does not track corrective action resulting from auditing findings; does not adequately monitor audit follow-up activities, and in general does not exercise quality control over audit operations.

- ***The Office of Internal Audits management does not adequately supervise the audit staff.*** Even though the management of the Office of Internal Audits acknowledges that some of its auditors are inexperienced, the audit chief and manager do not supervise the audit staff in the field. Occasionally, inexperienced auditors are paired with an experienced auditor, but in most cases, audits are carried out by auditors working alone. The Office of the Inspector General found from reviewing the travel expense claims of the audit chief and manager for the past three fiscal years, covering a period of 32 months, that the audit chief did not participate in fieldwork at all during that period and that the manager participated in the field on only two occasions. The audit chief and audit manager also do not attend entrance and exit conferences and do not review work papers supporting the audit findings and recommendations until after the auditors complete fieldwork and return to the office. As a result of the latter practice, the Office of the Inspector General found six instances in which management, after reviewing the audit work papers, required auditors to return to the field to

[1] A review of the schedule by the Office of the Inspector General showed that under the timetable, the Office of Internal Audits actually would need three years to complete all of the required audits.

develop or substantiate reportable findings between four and eighteen months after the initial fieldwork had been completed. These lapses in management contribute to delays in completing the audits and in issuing audit reports. They also violate the *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors, which require that audit engagements be properly supervised to ensure that objectives are achieved, quality is ensured, and that auditors are carrying out work assignments properly and efficiently.

- ***Audit reports are not issued promptly.*** The Office of the Inspector General found that the Office of Internal Audits takes nearly a year from the audit start date to issue a typical audit report ─ even when the audit fieldwork is completed in a relatively short time, the findings are straight-forward, and the audit report is only a few pages long. In one of the audits conducted in the three years ended December 31, 2002, for example, the audit took 523 hours ─ the equivalent of three and a half months ─ yet the report was not issued until more than a year after the audit start date. In that case, the report was only nine pages long and contained only four minor findings. In an even more extreme example, the audit fieldwork began in October 2000 and took 315 hours, the equivalent of about a month and a half, but the report was not issued until the end of October 2002, a full two years later. The Office of the Inspector General found that the average audit conducted by the Office of Internal Audits in the three years ending December 31, 2002 took 362 hours, slightly more than two months, but the average length of time between the audit start date to the date the report was issued totaled more than ten months. The long delays in issuing reports result again from inadequate supervision of the staff by management and the absence of tracking procedures to ensure that projects are completed in a timely manner. The failure of the Office of Internal Audits to issue reports in a time frame proportionate to the complexity of the audit and the length of the audit report is inconsistent with the *Standards for the Professional Practice of Internal Auditing,* which require that internal auditors communicate the results of audit engagements promptly.

- ***The majority of the audits exceed budgeted hours.*** The Office of the Inspector General found that most of the audits conducted by the Office of Internal Audits in the three-year period ending December 31, 2002 exceeded the hours budgeted for the project. The budget change proposal submitted by the department for fiscal years 2000-01 and 2001-02 allotted 150 hours ─ about a month ─ for each of the audits of the 301 transaction cycles and sub-cycles for which the Office of Internal Audits is responsible. In some cases, the audits were later budgeted for more than 150 hours. Yet, the records show that 70 percent of the audits exceeded the hours budgeted. Two of the audits ─ the audit of the revolving fund (CAL-Card) at the Northern Youth Correctional Reception Center and Clinic and the audit of the revolving fund (CAL-Card) at the Administrative Services Branch ─ exceeded budgeted hours by 837 hours and 759 hours, respectively, the equivalent of between five and six months. Even those figures may be conservative, since the Office of the Inspector General found that the supervisory hours spent by the audit chief and the audit manager on the audits are not included in the totals. The Office of the Inspector General reviewed a sample of the work papers for the audits conducted during the three-year period and found no justification documented for the budget over-runs.

- ***Management does not track findings to ensure that corrective action is taken.*** Under the *Standards for the Professional Practice of Internal Auditing,* the chief audit executive is responsible for monitoring audit findings to ensure that the management of the entity audited has either implemented corrective action or has accepted the risk of not taking action. The Office of the Inspector General found, however, that the management of the Office of Internal Audits does not fulfill this function. All audit reports issued by the Office of Internal Audits include a paragraph that directs the auditee to report on the status of corrective action six months and twelve months after the audit report is issued. But the management of the Office of Internal Audits does not monitor to ensure that the status reports are received, relying instead on the auditors to obtain the reports. And the Office of the Inspector General found that the auditors often do not request the status reports and do not track the information to determine what corrective action has been taken. The Office of Internal Audits did include as an attachment to its last biennial certification report a summary of audit findings and the status of corrective action for the two-year period ended December 31, 2001, but the office has no on-going system of tracking corrective action status. As a result, the management of the Office of Internal Audits is unaware of whether auditees have instituted corrective action in response to the audit findings.

- ***Failure to monitor corrective action results in repeat findings.*** In reviewing the audits conducted by the Office of Internal Audits in the three years ended December 31, 2002, the Office of the Inspector General found numerous instances in which audit findings were repeated in subsequent audits. The repeat findings result from the failure of the Office of Internal Audits to monitor the findings and track the implementation of corrective action. In one such example, the report of a follow-up review of an audit of the ward trust fund at the Northern California Youth Correctional Center and Clinic noted that a finding concerning inadequate separation of duties had been "reported in Internal Audits' reports in 1991, 1994, 1996 and 1998," meaning that the same finding had been repeated five times. In interviews with the Office of the Inspector General, the management and staff of the Office of Internal Audits acknowledged the problem of repeat findings. But the chief deputy director and the assistant director for Internal Affairs and Internal Audits of the California Youth Authority, while emphasizing the importance of the implementation of corrective action in response to audit findings, appeared to be unaware that findings were being repeated.

- ***Follow-up activities are not carried out properly***. The Office of the Inspector General found that the Office of Internal Audits budgets much more time than is warranted for follow-up activities relating to audit findings and appears to not conduct the follow-up activities effectively. Follow-up reviews do not require a re-audit of the finding, but rather should consist merely of determining whether corrective action has been carried out and reporting the results of the follow-up in a memorandum. Yet, in its annual plan for the fiscal year ending June 30, 2003, the Office of Internal Audits allocated 1520 hours for follow-up reviews at 10 locations, amounting to 19 percent of its total chargeable hours for the year. At the time of the Office of the Inspector General's fieldwork, none of these reviews had been completed.

  During the same period, the Office of Internal Audits also budgeted an excessive number of hours for follow-up reviews of audits of ward trust funds that had been conducted by the Department of Finance. For an audit conducted by the Department of Finance of the ward trust fund at the Northern Youth Conservation Camps, for example, the Office of Internal Audits budgeted 269 hours, even though the audit contained only three findings related to minor weaknesses in internal controls over property and inventory. The follow-up review for that audit should have required only minimal testing to verify that the corrective action described in the auditee's response to the audit report had been implemented and was working effectively. Yet, at the time of the Office of the Inspector General's fieldwork, the Office of Internal Audits had charged 212.5 hours to the project and the fieldwork was still in progress. In another example, the Office of Internal Audits budgeted 80 hours for a follow-up review of a Department of Finance audit involving just three findings on the ward trust fund at the Southern Youth Correctional Reception Center and Clinic, yet 207 hours were ultimately charged to the follow-up review.

The incongruity between the time that should be required for follow-up activities and the amount of time spent indicates either that the Office of Internal Audits does not efficiently plan the reviews or that management is requiring unnecessary amounts of fieldwork testing and work-paper development. The Institute of Internal Auditors includes the planning of follow-up activities among the responsibilities of the chief audit executive. In its *Practice Advisory 2500.A1-1,* the Institute of Internal Auditors specified that the planning should take into account the following:

> *The significance of the reported observation or recommendation.*
> *The degree of effort and cost needed to correct the reported condition.*
> *The impacts that may result should the corrective action fail.*
> *The complexity of the corrective action.*
> *The time period involved.*

- ***Quality control is inadequate.*** *The Standards for the Professional Practice of Internal Auditing* require that the chief audit executive develop and maintain a quality assurance program covering all aspects of the internal audit activity to continuously monitor its effectiveness. The quality control program should ensure that the internal auditing function adds value to and improves the operation of the organization and should include both internal and external assessments. The Office of the Inspector General found, however, that the quality control procedures of the Office of Internal Audits are inadequate, that the office does not perform periodic internal assessments, and that the Office of Internal Audits has not undergone an external quality control assessment since April 1995. The existing quality control procedures include work-paper review, sample formats and checklists for conducting audits, audit planning, budgets, and performance guidelines. But budgets are often disregarded by the audit staff, and the audit manager rarely supervises the staff in the field, even though the department's audit manual provides that the audit manager is responsible for the quality of work performed on each audit engagement. And even though the *Standards for the Professional Practice of Internal Auditing* require that an external assessment be conducted at least every five years, the last external assessment of the Office of Internal Audits was conducted by the Office of State Audits and Evaluations of the Department of Finance more than eight years ago, in April 1995. An adequate quality control program would have enabled the Office of Internal Audits to identify and correct the deficiencies in the management and operation of the internal audit function discussed in this report.

FINDING 3

The Office of the Inspector General found that the reporting structure of the Office of Internal Audits does not adequately protect the independence of the internal audit function

and impedes communication between the Office of Internal Audits and the department director.

Practice advisories issued by the Institute of Internal Auditors to help interpret the *Standards for the Professional Practice of Internal Auditing* recommend that the chief audit executive report directly to the chief executive officer of the organization to protect the independence of the internal audit function. As such, the advisories recommend that the chief audit executive of an internal audit organization report functionally to the audit committee, board of directors, or other appropriate governing authority and administratively to the chief executive officer of the organization. Consistent with the advisories, both the internal audit charter and the administrative manual of the California Youth Authority provide for the chief of the Office of Internal Audits to report administratively and functionally to the department's chief deputy director within the Office of the Director. The Office of the Inspector General found instead, however, that the chief of the Office of Internal Audits reports to the assistant director for the Office of Internal Affairs and Internal Audits, who, in turn, reports to the chief deputy director within the Office of the Director of the California Youth Authority. Furthermore, a recently approved department reorganization will add an additional managerial level between the Office of Internal Audits and the department director, further impeding communication between the director and the Office of Internal Audits and compromising the independence of the internal audit function.

The Office of the Inspector General found, moreover, that the formal reporting structure is often disregarded in practice. According to both the chief of the Office of Internal Audits and his immediate supervisor, the assistant director of Internal Affairs and Internal Audits, the chief of the Office of Internal Audits sometimes bypasses the formal chain of command by discussing fiscal matters directly with the chief deputy director of the department. Likewise, the chief deputy director sometimes assigns special projects directly to the Office of Internal Audits.

A pending reorganization will further undermine the independence of the audit function. Under a pending reorganization, the Office of Internal Audits would be combined with Policy, Procedures, Programs, and Regulations and with the newly formed Program Compliance Unit. All three offices would report to a program compliance administrator, who would report to an assistant director, who would report, in turn, to the Office of the Director. That arrangement would not only conflict with the internal audit charter and the department's administrative manual, but would add still another management layer between the Office of Internal Audits and the director's office. As such, the proposed reorganization would limit the ability of the internal audit chief to communicate information about sensitive internal matters to the department director. It would also compromise the ability of the Office of Internal Audits and the Program Compliance Unit to independently review and criticize work performed by Policy, Procedures, Programs and Regulations.

RECOMMENDATIONS

The Office of the Inspector General recommends that the California Youth Authority take the following actions with respect to the Office of Internal Audits:

- **To allow management greater control over fiscal and program functions critical to department operation, integrate the internal audit function and the program compliance function into a single office and combine staff to perform comprehensive fiscal and operational reviews.**

- **Provide for the internal audit/program compliance office to be managed by a person who can ensure that the office adheres to *Standards for the Professional Practice of Internal Auditing.***

- **Provide for the head of the internal audit/program compliance office to report directly to the chief deputy director within the Office of the Director of the California Youth Authority.**

- **Require that the head of the internal audit/program compliance office perform a comprehensive risk assessment of California Youth Authority institutions, camps, parole operations and headquarters to identify areas of high risk when assigning resources and developing work plans.**

- **Ensure adequate supervision of staff in the field by combining experienced and inexperienced staff into teams and ensure that managers and supervisors provide fieldwork supervision.**

- **Ensure that reports are issued promptly and communicate the relative importance of the findings and recommendations.**

- **Develop a tracking system to ensure that corrective action is implemented by auditees and that the status of the corrective action is submitted for management review.**

- **Implement an internal quality assurance program that enables management to measure staff and office performance in the areas of fiscal and program compliance, evaluation of budgeted and expended hours, effectiveness of reports, and monitoring of findings and recommendations.**

- **In accordance with the *Standards for the Professional Practice of Internal Auditing,* arrange for external assessments of the office at least every five years and communicate the results of the external assessments to the Office of the Director.**

REPORTS ISSUED BY THE OFFICE OF INTERNAL AUDITS JANUARY 1, 2000 THROUGH DECEMBER 31, 2002

AUDITS CONDUCTED PURSUANT TO THE FINANCIAL INTEGRITY AND STATE MANAGERS ACCOUNTABILITY ACT OF 1983

ENTITY	CYCLE/SUB-CYCLE	DATE
Administrative Services Branch	Revolving Fund (CAL-Card)	November 27, 2000
Headquarters and Accounting Services Bureau	Cash Disbursements	July 27, 2000
Northern California Youth Correctional Center (including DeWitt Nelson Youth Correctional Facility, Karl Holton Youth Correctional Facility, O.H. Close Youth Correctional Facility, and A. Chaderjian Youth Correctional Facility)	Fixed Assets	March 30, 2001
Northern Youth Correctional Reception Center and Clinic	Fixed Assets	July 17, 2001
El Paso de Robles Youth Correctional Facility	Fixed Assets	June 1, 2001
Fred Nelles Youth Correctional Facility	Fixed Assets	October 29, 2002
Ventura Youth Correctional Facility	Fixed Assets	March 23, 2001
Headquarters and Parole (including Sacramento Parole Office, South Coast Parole Office, San Jose Parole Office, and the Gang Services Project)	Revolving Fund (Cash Operations)	February 28, 2002
Ben Lomond Youth Correctional Facility	Fixed Assets	February 23, 2001
Ben Lomond Youth Correctional Facility	Revolving Fund (CAL-Card)	March 13, 2001
Washington Ridge Youth Correctional Facility	Fixed Assets	February 23, 2001
Washington Ridge Youth Correctional Facility	Revolving Fund (CAL-Card)	February 22, 2001
El Paso de Robles Youth Correctional Facility	Revolving Fund (CAL-Card)	November 28, 2000
Ventura Youth Correctional Facility	Revolving Fund (CAL-Card)	May 15, 2001
Northern Youth Correctional Reception Center and Clinic	Revolving Fund (CAL-Card)	September 18, 2000
Headquarters and Administrative Services Branch	Receivables (County Billings)	October 18, 2001
Headquarters and Office of Program Compliance	Fixed Assets	October 19, 2001
Preston Youth Correctional Facility	Revolving Fund	April 10, 2002
Headquarters and Administrative Services Branch	Revolving Fund	August 26, 2002
Northern California Youth Correctional Center	Revolving Fund	August 9, 2002

SPECIAL PROJECTS

Headquarters and Parole	Ward Trust Federal Survey	August 15, 2000
Northern Youth Correctional Reception Center and Clinic	Ward Trust Follow-up Review	June 17, 2002
Southern Youth Correctional Reception Center and Clinic	Ward Trust Follow-up Review	May 30, 2002

ATTACHMENT B

RESPONSE OF THE CALIFORNIA YOUTH AUTHORITY

9C103-146

STATE OF CALIFORNIA--YOUTH AND ADULT CORRECTIONAL AGENCY GRAY DAVIS, GOVERNOR

DEPARTMENT OF THE YOUTH AUTHORITY

4241 Williamsbourgh Drive, Sacramento, California 95823
Telephone (916) 262-1467

June 23, 2003

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Mr. John Chen
Deputy Inspector General
Office of the Inspector General
801 "K" Street, Suite 1900
Sacramento, CA 95814

Re: Audit of the Office of Internal Audits

FINDING 1:

The Office of the Inspector General found that the California Youth Authority is not making effective use of the Office of Internal Audits as a tool to identify problems that need corrective action.

Response

The Office of Internal Audits generally agrees with the findings. Specifically, that the Office of Internal Audits has not been focusing on the most serious problems facing the California Youth Authority as well as the dollar expended in staff resources, which resulted in inconsequential findings that addressed issues of minor impact to the total organization. This was the result of the Audit Chief/Manager assessing the risk to the organization based upon SAM 20050 requirements, which limited his assessment to narrowly focused on high-risk money handling and inventory compliance.

The California Youth Authority proposes to implement the following corrective actions in response to the Office of the Inspector General's recommendation:

To allow management greater control over fiscal and program functions critical to department operation, integrate the internal audit function and program compliance function into a single office and combine staff to perform comprehensive fiscal and operational reviews.

Corrective Actions

While the Office of Internal Audits has been traditionally confined to fiscal management of the department assets, specifically areas of accounting procedures, physical inventories and cash/warrant transactions, we agree the focus must change.

- The Office of Internal audits, working with the Department of Finance and Office of the Inspector General will develop a list of high-risk areas specific to fiscal matters. This list will be presented to the Executive Management Team of the California Youth Authority to be included in the Annual high-risk assessment prioritization, conducted by the management team. The management team will then prioritize the list identifying those areas that should be combined in program effectiveness, policy compliance and fiscal accountability audits and those which would only be individual audits.

- Both the Program Compliance Unit and the Office of Internal Audits will then be required to establish when and where the audits will be undertaken, methodology and timeframes for completion.

Provide for the internal audit/program compliance to be managed by a person who can ensure that the office adhere to Standards for the Professional Practice of Internal Auditing.

Corrective Actions

The current budget and staffing level limits the California Youth Authority to change the management structure currently in place. The audit conducted by the Office of the Inspector General has been an education tool to the Executive Management Team and has brought about a better understanding of the Standards for the Professional Practice of Internal Auditing.

- The California Youth Authority will seek out formal training that can be provided to supervisory and management staff to increase their understanding internal auditing practices.

FINDING 2

The Office of the Inspector General found that the Office of Internal Audits is poorly managed, inadequately supervised, and is not fulfilling its audit responsibilities.

Response

The Office of Internal Audits generally agrees with the findings that audit staff needs extensive training and close supervision, and that the audit production has been low.

The Office of Internal Audits proposes to implement the following corrective actions in response to the Office of the Inspector General's recommendations:

Require that the head of the internal audit/program compliance office perform a comprehensive risk assessment of California Youth Authority institutions, camps, parole operations and headquarters to identify areas of high risk when assigning resources and developing work plans.

Corrective Actions

While the Office of Internal Audits is generally confined to fiscal management of the department, the OIA proposes to implement the following corrective actions:

- The OIA will revise its audit plan to consolidate some of the related cycle and sub-cycle transaction activities in one audit.

- A formal risk assessment of the Headquarters Operations, Institutions, Camps, Parole Offices, etc., will be performed and the results will be presented to the Executive Committee at the beginning of the fiscal year for the Committee's final determination relative to the "*What, Where, and When*" the audits will be conducted during the fiscal year.

- Audits may be conducted in conjunction with Program Compliance Unit, if management so requests, in order to minimize the interruption of the audit entity's operation, and at the same time present management with an overall assessment of the audit entity's financial and program operations.

Ensure adequate supervision of staff in the field by combining experienced and inexperienced staff into teams and ensure that managers and supervisors provide fieldwork supervision.

Corrective Actions

The Office of Internal Audits will adopt the team approach in conducting its audits. Each team will consist of a team leader, an Auditor-In-Charge, with less experienced audit staff as members of the audit team. The audit manager, and audit chief will be actively involved in monitoring fieldwork in progress and provide "on site" on-the-job-training to both the AIC and members of the audit team.

Ensure that reports are issued promptly and communicate the relative importance of the findings and recommendations.

Corrective Actions

The Office of Internal Audits is in the process of updating the existing audit tracking system to include different stage of the audit engagement in order to properly track each and every audit engagement in progress.

The OIA will provide quarterly audit progress and status reports to the Executive Committee.

The OIA will continue issue "Audit Bulletin"[1] to alert management of audit issues that may affect the department's financial and/or program operation.

[1] The Office of Internal Audits has been issuing Audit Bulletin on a regular basis since August 1999 to alert management of issues that may affect the department's financial and program operations.

Develop a tracking system to ensure that auditees implement corrective action and that the status of the corrective action is submitted for management review.

Corrective Actions

The Office of Internal Audits is in the process of developing and implementing a database to track audit findings. The OIA anticipates to have this tracking system completed by August 2003. The tracking system will allow the OIA to more closely monitor audit findings and ensure that recommended corrective actions are implemented.

The OIA will incorporate the status of audit findings into its quarterly report to the Executive Committee as previously discussed.

Implement an internal quality assurance program that enables management to measure staff and office performance in the areas of fiscal and program compliance, evaluation of budgeted and expended hours, effectiveness of reports, and monitoring of findings and recommendations.

Corrective Actions

The Office of Internal Audits agrees to have an internal assessment performed by an internal team selected by the Assistant Director of the Office of Professional Standards to appraise the quality of the Office of Internal Audits periodically.

The Office of Internal Audits will request feedback from audited management, i.e. Institution Superintendents, Deputy Directors, Business Administrators, Accounting Administrators, etc. through the use of questionnaires to ensure continue improvement of the OIA operation.

In accordance with the Standards for the Professional Practice of Internal Auditing, arrange for external assessment of the office at least every five years and communicate the results of the external assessments to the Office of the Director.

Corrective Actions

The Office of Internal Audits agrees that an external assessment of the OIA should be performed at least every five years. Since we consider the OIG audit an external assessment of the office, we will request the Department of Finance to perform a peer review of the office within the next two years. Two years was chosen based upon the extent of the findings by the Office of the Inspector General.

<u>FINDING 3</u>

The Office of the Inspector General found that the reporting structure of the Office of Internal Auditing does not adequately protect the independence of the Internal Audit functions and impedes communication between the Office of Internal Audits and the department director.

Response

While the California Youth Authority agrees independence of the Internal Audit function is critical we disagree with the recommendation that the Internal Audit functions should report directly to the Chief Deputy Director.

The California Youth Authority proposes to implement the following corrective actions in response to the Office of the Inspector General's recommendations:

Provide for the internal audit/program compliance office report directly to the Chief Deputy Director within the Office of the Director of the California Youth Authority.

Corrective Actions

The Youth Authority will restructure the chain of command to reflect that the Internal Audits and Program Compliance offices report functionally to the Assistant Director of Office of Professional Standards who reports directly to the Director, and that the Audits and Program Compliance managers report administratively to the Director.

Sincerely,

Jerry L. Harper
Director

ATTACHMENT C

COMMENTS OF THE OFFICE OF THE INSPECTOR GENERAL IN RESPONSE TO THE CALIFORNIA YOUTH AUTHORITY

COMMENTS OF THE OFFICE OF THE INSPECTOR GENERAL IN RESPONSE TO THE CALIFORNIA YOUTH AUTHORITY

FINDING 3

The department's response to Finding 3 fails to address the potential conflict brought about by the plan to combine the Office of Internal Audits and the Program Compliance Unit with the Policy, Procedures, Programs and Regulations Unit under a program compliance administrator. That arrangement could compromise the independence of the internal audit function in any circumstances in which the work of the Policy, Procedures, Programs, and Regulations Unit is the subject of an audit or a compliance review, since all three offices report to the same person. The Office of the Inspector General has been informed, in addition, that the department's training function may be moved under the assistant director of the Office of Professional Standards, to whom the program compliance administrator also reports, which would create a similar potential for conflict. If the department is determined to have the internal audits and program compliance offices report to the assistant director of the Office of Professional Standards, the Policy, Procedures, Programs and Regulations Unit and the training function should be placed under a different organizational component to ensure the independence of the audit and evaluation functions.